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Russian Federation

Sugar

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Report Highlights:

Raw sugar imports lower than in 2002 reduced sugar stocks and caused prices to increase this spring. Imports of raw sugar will continue falling under pressure of sugar processors and heavy yields of the 2003 harvesting season. Domestic sugar beet producers are demanding a reduction of the TRQ or a significant high flat import duty on raw sugar for 2004.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Moscow [RS1]
[RS]

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Executive Summary

Russian raw sugar imports decreased significantly this year. Russia imported about 3 MMT of raw sugar in the first nine months of FY2003 according to the Russian State Statistics Committee. That is 35 percent less than in the same period of 2002. Beet sugar production in FY2004 (planted in the spring of 2003 and processed in October –December 2003) is expected to exceed significantly last year level because of increased sugar beet acreage and good yields this season. Nevertheless it will not compensate for fall of raw sugar imports, and white sugar stocks significantly decreased as a result. No new plans issued with regard to sugar imports regime for 2004 up to now. Imports of raw sugar will continue to fall under pressure of sugar processors lobbing for reduced imports, and heavy yields. Domestic sugar producers, many of them foreign owned, and Ministry of agriculture are demanding a reduction of the TRQ or a significant high flat imports duty on raw sugar.

Raw sugar imports lower than in 2002 reduced stocks, and retail sugar prices increased this spring as a result.

Production

Sugar beet acreage increased in the planting season of 2003 up to one million hectares or by eleven percent over 2002. In part this increase was explained by winter wheat replanting after the cold winter.

By the beginning of October 66 percent of sugar beet area had been harvested and 14MMT collected. Average yield was 23.1 MT/hectare, which is 1.9 MT/ha more than the last year. Refineries pay about 1,000 rubles per/MT of sugar beets.

PSD Table

Country	**Russian Federation**						
Commodity	**Sugar Beets**				(1000 HA)(1000 MT)		
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]	UOM
Market Year Begin		09/2001		09/2002		09/2003	MM/YYYY
Area Planted	930	930	900	900	1000	1000	(1000 HA)
Area Harvested	910	910	800	800	920	950	(1000 HA)
Production	16300	16300	15500	15500	17000	18000	(1000 MT)
TOTAL SUPPLY	16300	16300	15500	15500	17000	18000	(1000 MT)
Utilization for Sugar	16300	16300	15500	15500	17000	18000	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	16300	16300	15500	15500	17000	18000	(1000 MT)

Refined sugar production

Sugar production was 12 percent lower in Russia in the first half of 2003 in comparison with the same period of 2002. Russia produced 4.5 million tons of sugar from raw sugar and 1.6 million tons from sugar beet in CY 2002, compared to respectively 4.9 million and 1.6 million tons in CY 2001. The country's sugar needs are estimated at 5.5 million to 5.7 million tons per year.

PSD Table

Country	Russian Federation						
Commodity	Centrifugal Sugar				(1000 MT)		
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]	UOM
Market Year Begin		10/2001		10/2002		10/2003	MM/YYYY
Beginning Stocks	3100	3100	2130	2130	1350	1050	(1000 MT)
Beet Sugar Production	1630	1630	1580	1580	1700	1800	(1000 MT)
Cane Sugar Production	0	0	0	0	0	0	(1000 MT)
TOTAL Sugar Production	1630	1630	1580	1580	1700	1800	(1000 MT)
Raw Imports	4600	4600	4100	3500	4100	3500	(1000 MT)
Refined Imp.(Raw Val)	250	250	400	400	300	300	(1000 MT)
TOTAL Imports	4850	4850	4500	3900	4400	3800	(1000 MT)
TOTAL SUPPLY	9580	9580	8210	7610	7450	6650	(1000 MT)
Raw Exports	10	10	10	10	10	10	(1000 MT)
Refined Exp.(Raw Val)	400	400	250	250	200	100	(1000 MT)
TOTAL EXPORTS	410	410	260	260	210	110	(1000 MT)
Human Dom. Consumption	7040	7040	6600	6300	6200	6000	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	7040	7040	6600	6300	6200	6000	(1000 MT)
Ending Stocks	2130	2130	1350	1050	1040	540	(1000 MT)
TOTAL DISTRIBUTION	9580	9580	8210	7610	7450	6650	(1000 MT)

Production cost per one hectare of sugar beets was 12,391 rubles ($400) in 2002. Production cost per 1MT of sugar beets was 630 Rubles ($20) the same year.

Agricultural machinery

Production of sugar beets in Russia was barely profitable last year though preliminary reports indicate, that sugar beets will be the most profitable crop for farmers this season. Nevertheless agricultural machinery in Russian agriculture as a whole, and in beet farming in particular, is extremely worn out on the majority of farms. Most loans to buy machinery are extended for a maximum of three years. Therefore, in order to update the machinery of Russian agriculture and bring it to a qualitatively new level, five to seven years will be needed with a high degree of protection from imports for the sugar industry, sugar market expert believe.

Big refining companies reported significant improvement in availability of sugar beet planting and harvesting machinery on beet supplying farms. That is helping them to manage harvesting in a timely manner despite the heavy sugar beet production this fall.

Consumption

Sugar consumption decreased as a result of price increases. Some home sugar utilization became unprofitable (fruit processing and production of homemade alcohol).

Trade

Russian State Customs Committee reported that sugar imports in the period of October 2002 –June 2003 were about three million metric tons. That is 35 percent less than in the same period of 2002.

Table 1: Raw sugar imports and export prices, January 2001-June 2003.

Quarter	2001		2002		2003	
	1,000MT	Price, $/MT	1,000MT	Price, $/MT	1,000MT	Price, $/MT
QI	1,337	243	1,006	195	812	222
QII	2,009	226	2.302	216	1,489	217
QIII	980	220	709	186	N.a	N.a
QVI	1,083	189	413	198	N.a	N.a

Source: Russian State Customs Committee Publications

Prices

After a long period of stability, white sugar prices on the Russian market have grown from 15 rubles per kilo in May 2002 tol 20.70 rubles per kilo in March 2003. Since then prices declined to some extent and reached 19.90 rubles in August 2003.

Table 2. Retail sugar prices*, January 2001-August 2003

	2001	2002	2003
January	15.91	15.18	19.83
February	no data	15.15	20.42
March	15.97	no data	20.70
April	no data	15.03	20.62
May	no data	14.96	20.39
June	15.44	no data	20.16
July	15.58	17.71	20.08
August	15.72	no data	19.90
September	no data	17.23	Not applicable
October	15.20	17.99	Not applicable
November	14.92	18.91	Not applicable
December	14.88	19.47	Not applicable

Source: Russian “Trade Newspaper”
*Exchange rate ranged between 30.30-32.00 rubles/$

Stocks

The decrease in raw sugar imports reduced sugar stocks in Russia to more reasonable levels.

Policy

Russia may introduce a fixed tariff for imports of raw sugar in 2004 instead of a tariff rate quota system. The Ministry of Economic Development and Trade proposed to set a flat tariff for raw sugar imports beginning in 2004. The proposal is being discussed with interested departments and sugar producers. The final decision would be reached during a meeting of the government commission for trade protection and tariff policy. A tariff rate quota currently restricts supplies of raw sugar to Russia. This amounted to 3.65 million tons in 2001 and 2002 and this year to 3.95 million tons. Meanwhile, delays in deciding on a sugar regime for 2004 are seriously complicating the situation on the country’s sugar market.

Most sugar market operators favor the tariff rate quota that should be distributed among sugar beet processors in accordance with their share in sugar beet processing. Sugar processors and traders met with Minister of Agriculture Aleksey Gordeyev, and agreed, that there should be a 3-4 year transition period, and that the 2004 quota would be 3.0-3.2MMT. The customs duty within TRQ is proposed to be 170-180 Euro/MT , while raw sugar will be subject to a 230 Euro/MT imports duty. If no government resolution is issued on raw sugar imports, the tariff on raw sugar will be 90 Euro/MT beginning January 1, 2004 versus 230Euro/MT now.

Commenting on the possibility that companies from Belarus might participate in the Russian sugar auction, sugar experts believe that it is necessary to ensure equal rules of the game for all participants, which presupposes the absence of any preferences or special concessions on the part of the Belarus government for its companies. The Russian Sugar Producers Union favors a draft governmental resolution that envisions the participation of Belarus companies in auctions in case they happen. Sugar made from quota raw material could be sold on both countries' markets and the quota presupposes a volume of raw material that would allow for eliminating both countries' deficits in sugar.

Cooperation within the Commonwealth of Independent States (CIS).

CIS member states are trying to harmonize production and sugar trade. The proposal for putting together a program for a unified sugar market in the CIS includes unification of customs laws and the creation of mutually advantageous customs regimes, a single tariff policy for product transport, unifying the systems of taxation, standardization and certification. The CIS countries produced 8.9 million tons of sugar last year, including 3.4 million tons from sugar beet. There was a 1.1 million-ton sugar shortfall, as need for the commodity was estimated at 10 million tons annually.